referred to Richard Notebaert, chief executive officer, Ameritech Corp.; Morton Bahr, international president, and Robert D. Johnson, district 4 vice president, Communications Workers of America; Ameritech employees Gary Keating, Rick Compost, and Deborah Echols; Mayor John Norquist of Milwaukee; and Marsha Radaj, vice president of operations, Wisconsin Health Information Network.

Exchange With Reporters in Milwaukee

April 18, 1994

Interest Rates

Q. What about the Fed and the interest rates?

The President. Well, I have two reactions. First of all, there is still no evidence of troubling inflation in this economy, but there is a lot of evidence of growth. And in the last couple of weeks we've seen even more evidence of growth in the economy, for example, big backlogs on automobile orders.

When you have growth in the economy, normally short-term interest rates go up. The estimates are that inflation will be around 3 percent. Historically, short-term interest rates have been about three-quarters to one percent above the rate of inflation. So, this is still within the range of interest rates that should not do anything to harm the economic recovery. And I can only guess that that had something to do with—the signs of economic growth have been very strong in the last couple of weeks, and that the interest rates at 3.5 percent were still only a half a point above the inflation rate, so that's the real interest rate. So I don't think it's cause for real alarm; I wouldn't say that.

But on the other hand, what normally triggers interest rates going up is some evidence of inflation. We don't have that. So we'll just have to watch this. But I think it would be a real mistake to overreact. This is a very strong economy; it's very healthy. We've got good growth.

Q. But this is not overreaction?

Q. By the Fed?

The President. All I can tell you is what I said. I don't make a practice of commenting on what they do. There is no evidence of inflation, but there is evidence that economic growth is stronger even than we thought, say 2 months ago. And historically, in times of real growth, short-term interest rates have been somewhere between three-quarters of a percent and one percent above the projected rate of inflation, which is 3 percent. So in larger historical terms, this should not be any cause for alarm. We've still got good strong growth, and everybody, including Mr. Greenspan, says that the conditions of economic growth are better than they've been in two or three decades. So I still feel very good about that.

Q. So you have no beef with the Fed? You have no beef with the Fed for raising rates again?

The President. I don't comment on what they do one way or the other, except to try to explain it to people in terms that I think are relevant. I understand what happened if the objective is to have a real rate of return on short-term interest rates. That is, the short-term interest rates ought to be something above the rate of inflation.

But even Mr. Greenspan has said repeatedly that this should not lead to an increase in long-term interest rates. He has said long-term interest rates are, if anything, too high while short-term interest rates might have been too low. So if the market is going to rationally react to this, long-term interest rates should say, well, there's not going to be any inflation in the economy, and we've got good growth so interest rates ought to stay down, not go up. That's what I hope will happen over the long run.

Bosnia

Q. Any new actions for Bosnia, Mr. President?

The President. Well, I'm going back now to find out what happened today.

Thank you.

NOTE: The exchange began at 4:05 p.m. at Leon's Frozen Custard Stand. A tape was not available for verification of the content of this exchange.